MICHIGAN EDUCATION TRUST

ANNUAL REPORT 2002-2003
Plans B & C

For additional copies, please
contact the MET office at:

1-800-MET-4-KID
(1-800-638-4543)

(517) 335-4767

www.met4kid.com

STATE OF MICHIGAN

DEPARTMENT OF TREASURY

JENNIFER M. GRANHOLM
GOVERNOR

LANSING

JAY B. RISING
STATE TREASURER

July 2004

Dear MET Participants:

We are pleased to present the fiscal year 2002-03 annual report for the Michigan Education Trust (MET). The actuarial report prepared by PricewaterhouseCoopers LLP (PwC) shows the MET fund for contracts purchased from 1988 through 1990 (referred to in this report as Plan B and Plan C contracts) was actuarially sound and over-funded at 106 percent of liabilities as of September 30, 2003. Plan B contracts include full and limited benefit contracts covering both public four-year and community colleges. Plan C contracts provide tuition benefits only for community colleges.

Over the next few years, MET will experience a period of time where the largest number of students will be eligible to utilize their MET contracts. The MET guarantee has been fulfilled for over 20,400 MET contracts that have been completely used. On average, 96.5 percent of the contracts have been used to attend a postsecondary educational institution. This confirms the MET theory that a child is most likely to participate in higher education if the affordability of college tuition is assured.

The MET Board of Directors and staff applaud all contract purchasers for encouraging and motivating your beneficiaries to pursue postsecondary education by participating in the MET program. The MET staff is enthusiastic about the future of the program and encourages you to call the MET office with any questions or concerns you may have at (800) MET-4-KID (638-4543) or (517) 335-4767 in the greater Lansing area. You may also reach us at the MET web site address www.met4kid.com.

Sincerely,

Jay B. Rising
MET Chairman
State Treasurer

Robin R. McMillan
Executive Director
Michigan Education Trust

MET BOARD AND LEADERSHIP

A nine-member Board of Directors administers the MET program. Board members are responsible for policy development, investment initiatives, program development and implementation. The Governor, on advice and consent of the Senate, appoints MET Board members, who represent expertise in business, academics or finance. By statute, the State Treasurer, Jay B. Rising, serves as Chairman. Robin McMillan, Executive Director, serves as liaison to the MET Board of Directors and administers MET operations.

MICHIGAN EDUCATION TRUST
BOARD OF DIRECTORS

MR. JAY B. RISING
State Treasurer
MET Chair

MR. ROBERT A. BOWMAN
MET President
President & CEO, MLB Advanced Media, L.P.

MR. THOMAS P. SULLIVAN
MET Vice President
President, Cleary College

DR. MICHAEL RAO
President, Central Michigan University

MS. PAULA CUNNINGHAM
President, Lansing Community College

MR. LON SCHNEIDER
Superintendent, Manton School District

MR. TAYLOR SEGUE, III
Attorney, Howard and Howard

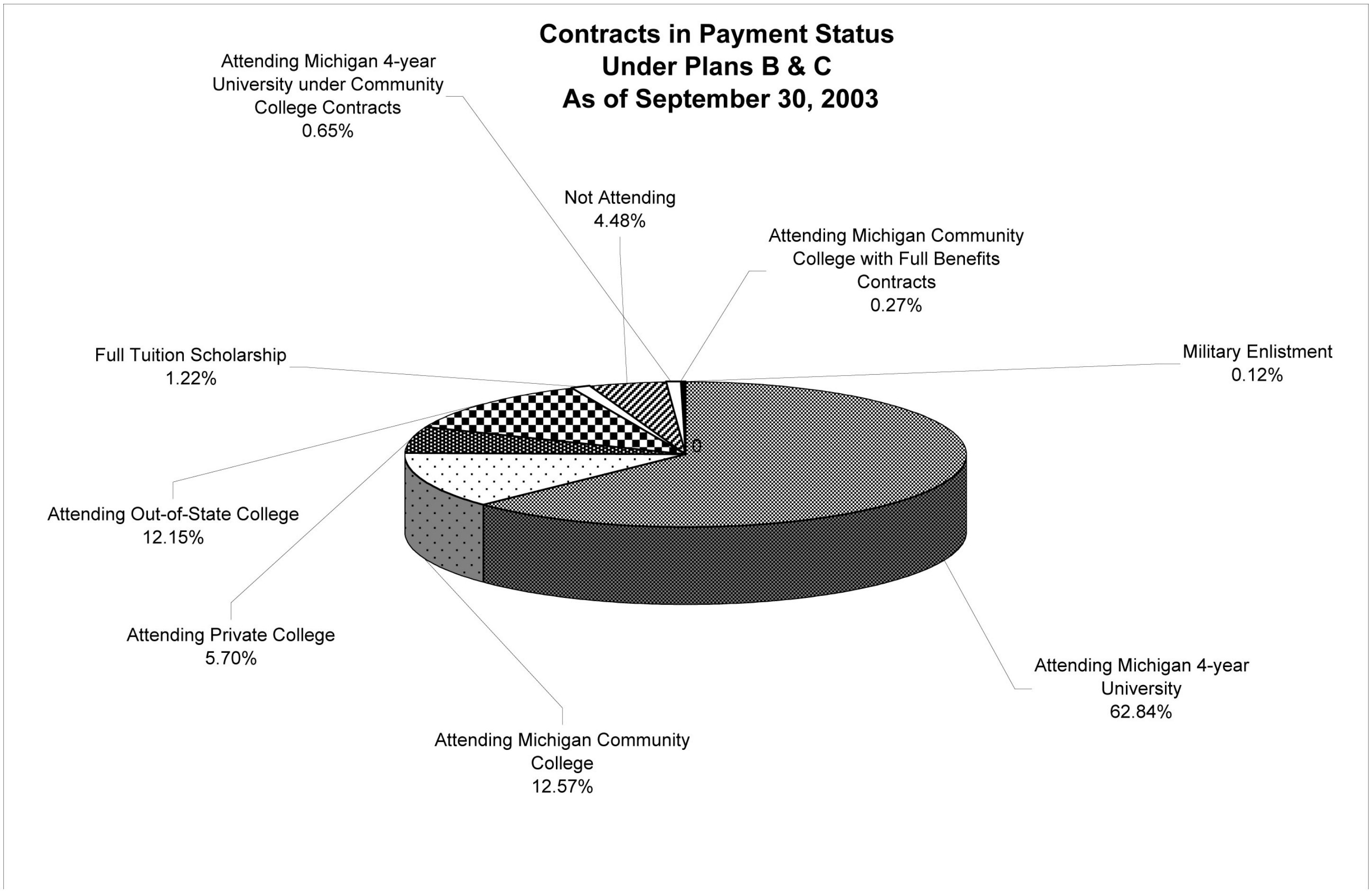
MS. KATHLEEN SCHMALTZ
Freelance Television Broadcaster

MS. STEPHANIE M. WILKINSON
Certified Public Accountant, Port Huron School District

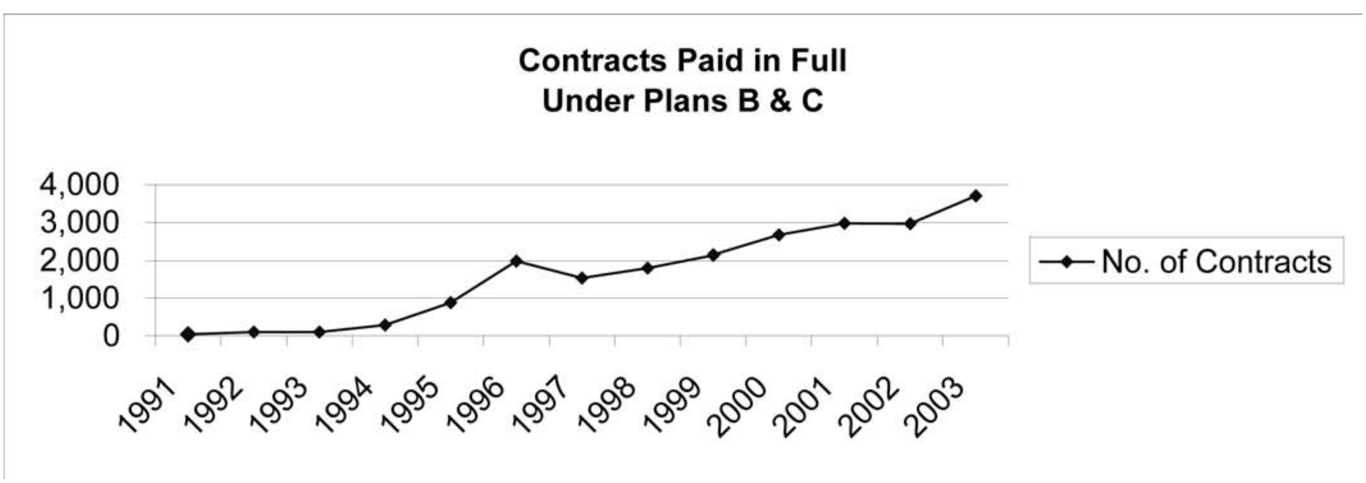
THE MET PROGRAM

Michigan Education Trust (MET) is Michigan's Section 529 prepaid tuition program established by Public Act 316 of 1986. MET is administratively located within the Department of Treasury, Bureau of Student Financial Assistance. A nine-member Board of Directors and a twelve-member staff administer the MET program.

MET allows parents, grandparents, businesses and others, to make contributions, at the current rate of tuition for a child to attend any Michigan public college in the future. Michigan is the first state in the nation to enact legislation for a prepaid tuition program. Today, all 50 states have established similar prepaid or college savings programs.

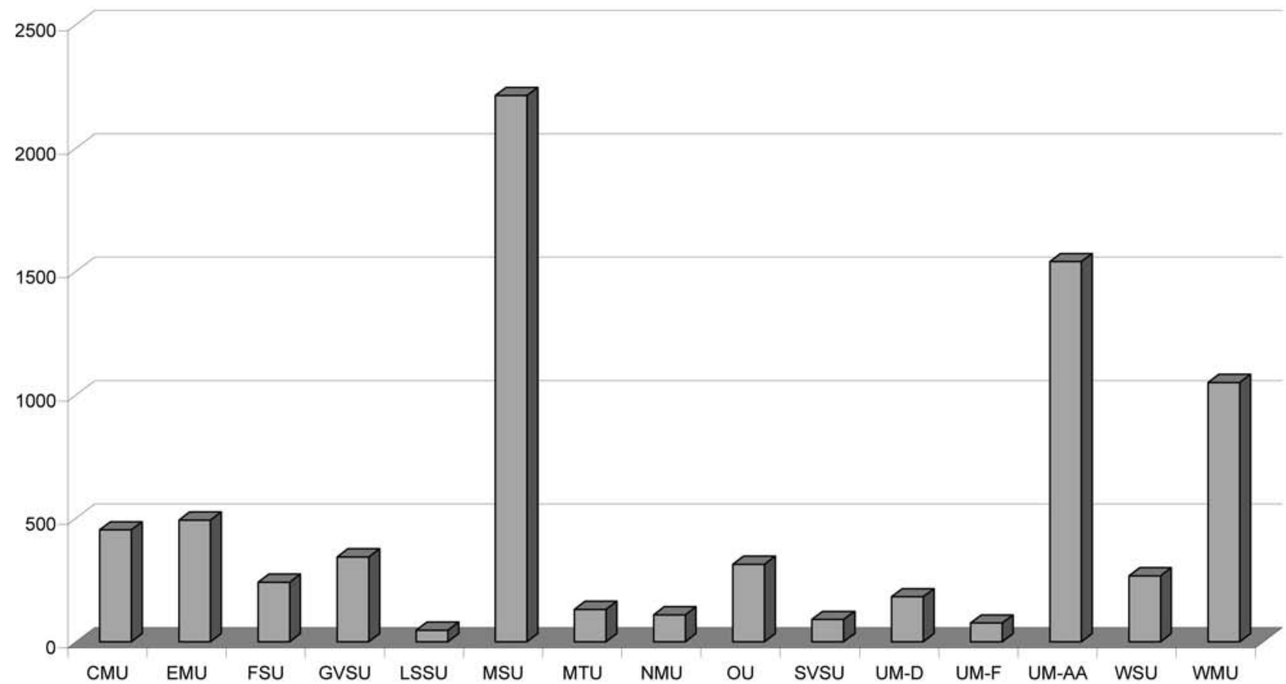


Contracts in Payment Status
Under Plans B & C
As of September 30, 2003
Attending Michigan 4-year University under Community College Contracts 0.65%
Not Attending 4.48%
Attending Michigan Community College with Full Benefits Contracts 0.27%
Full Tuition Scholarship 1.22%
Military Enlistment 0.12%
Attending Out-of-State College 12.15%
Attending Private College 5.70%
Attending Michigan 4-year University 62.84%
Attending Michigan Community College 12.57%



Contracts Paid in Full
Under Plans B & C
4,000
3,000
2,000
1,000
0
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
No. of Contracts

Students Attending 4-Year Public Universities Under Plans B & C As of September 30, 2003



CMU-Central Michigan University

EMU-Eastern Michigan University

FSU-Ferris State University

GVSU-Grand Valley State University

LSSU-Lake Superior State University

MSU-Michigan State University

MTU-Michigan Technological University

NMU-Northern Michigan University

OU-Oakland University

SVSU-Saginaw Valley State University

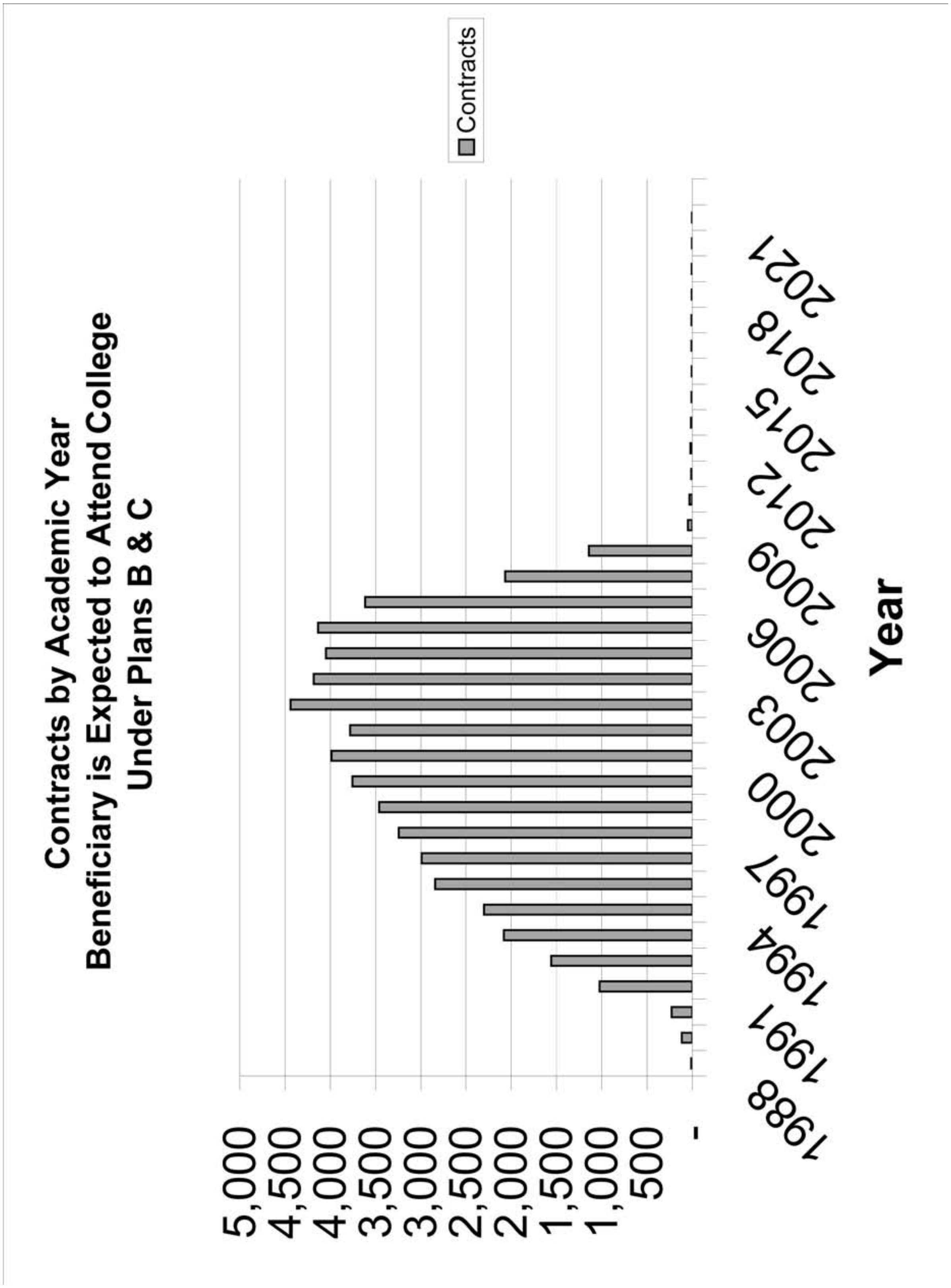
UM-D-University of Michigan-Dearborn

UM-F-University of Michigan-Flint

UM-AA-University of Michigan-Ann Arbor

WSU-Wayne State University

WMU-Western Michigan University


Contracts by Academic Year
Beneficiary is Expected to Attend College
Under Plans B & C
5,000
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
-
1988
1991
1994
1997
2000
2003
2006
2009
2012
2015
2018
2021
Year
Contracts

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
One North Wacker
Chicago IL 60606
Telephone (312) 298 2000
Facsimile (312) 298 2001

November 14, 2003

Mr. Jay B. Rising
Chairman of the Board of Directors of the
Michigan Education Trust
Department of Treasury
P. O. Box 30198
Lansing, Michigan 48909

Dear Mr. Rising:

PricewaterhouseCoopers LLP (PwC) in conjunction with Richard M. Kaye & Associates has performed an actuarial valuation of Plans B and C (MET I) of the Michigan Education Trust ("MET I" or "the Trust"), at the request of the Trust as of September 30, 2003. The valuation is based on data furnished by MET regarding the contracts submitted during the 1988, 1989 and 1990 enrollment periods and payments made under those contracts; unaudited financial data provided by MET; the actuarial basis described herein and the contract provisions in effect for the 1988, 1989 and 1990 enrollments.

We have determined that as of September 30, 2003, based on the aforementioned data and assumptions, the market value of Plan B assets exceeded the actuarial present value of Plan B benefits by $42,103,588 and the market value of the Plan C assets exceeded the actuarial value of Plan C benefits by $3,191,827.

The valuation was performed based upon generally accepted actuarial principles, and tests were performed as considered necessary to ensure the accuracy of the results. We certify that the amounts presented in the accompanying report have been appropriately determined according to the actuarial assumptions stated herein.

Respectfully submitted,

Steven A. Skov, ACAS,MAAA
Principal Consultant
PricewaterhouseCoopers LLP

Richard M. Kaye
Fellow of the Society of Actuaries, CPA
Richard M. Kaye & Associates

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on
the Financial Statements

November 14, 2003

Mr. Jay B. Rising, Chairman
Board of Directors
Michigan Education Trust
Treasury Building
Lansing, Michigan

Dear Mr. Rising:

We have audited the financial statements of the Michigan Education Trust Plans B and C as of and for the fiscal years ended September 30, 2003 and September 30, 2002, as identified in the table of contents. The Michigan Education Trust is a component unit of the State of Michigan. These financial statements are the responsibility of the Michigan Education Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the financial statements present only the Michigan Education Trust Plans B and C and do not purport to, and do not, present fairly the financial position of the State of Michigan or its component units as of September 30, 2003 and September 30, 2002 and the changes in financial position and cash flows thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Michigan Education Trust Plans B and C as of September 30, 2003 and September 30, 2002 and the changes in financial position and cash flows thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 14, 2003 on our tests of the Michigan Education Trust's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Thomas H. McTavish

Thomas H. McTavish, C.P.A.
Auditor General

Management's Discussion and Analysis
Michigan Education Trust
Plans B and C

This is a discussion and analysis of the financial performance of the Michigan Education Trust (MET) Plans B and C for the fiscal year ended September 30, 2003. MET is an Internal Revenue Code Section 529 prepaid tuition program and is a component unit of the State of Michigan, administratively located within the Department of Treasury. MET's management is responsible for the financial statements, notes to the financial statements, and this discussion.

Using the Financial Report

This financial report includes the report of independent auditors, management's discussion and analysis, the basic financial statements, and notes to the financial statements.

The financial statements are interrelated and represent the financial status of MET.

The Statement of Net Assets includes the assets, liabilities, and net assets at the end of the fiscal year.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating and investing activities.

Analysis of Financial Activities

The MET Board of Directors approves an annual budget and the investment portfolio allocation. The Bureau of Investments, Department of Treasury, under the direction of MET management, is responsible for short-term and long-term investment of MET funds. The MET portfolio for Plans B and C is invested 100% in fixed income investments.

MET funds are invested to coincide with the students' expected years of high school graduation. Once students activate their contracts, colleges and universities submit invoices to MET every semester for tuition and mandatory fees. Students have nine years from the expected year of high school graduation to completely use MET contract benefits.

Annually, the actuary determines the actuarial soundness of each MET plan. Key factors used in the soundness analysis are: tuition increases (short-term and long-term), investment performance, and college selection against MET by students and purchasers.

Comparison of Current Year and Prior Year Results

Condensed Financial Information
From the Statement of Net Assets
As of September 30
(in thousands)

	2003	2002
Current assets	$ 76,373	$ 43,962
Noncurrent assets	612,236	690,919
Total assets	$ 688,609	$ 734,881
Current liabilities	$ 69,008	$ 73,944
Noncurrent liabilities	574,305	577,357
Total liabilities	$ 643,314	$ 651,300
Net assets-restricted	$ 45,295	$ 83,581
Total net assets	$ 45,295	$ 83,581

The overall financial position of MET Plans B and C for the fiscal year ended September 30, 2003 is positive and shows net assets of approximately $45.3 million. The net assets decreased by approximately $38.3 million from September 30, 2002 primarily because of:

1. Higher than expected tuition increases during the last year.
2. Lower than expected asset performance during the last year.
3. Lower discount rate (5.0%) than last year's rate (5.27%).

Current assets increased primarily because of the increase in cash and cash equivalents. Cash and cash equivalents include short-term investments. This line item increased as of September 30, 2003, because some investments matured and the proceeds were not immediately reinvested in the long-term portfolio because of market volatility.

Noncurrent assets decreased because of the liquidation of long-term investments to make increased tuition benefit payments in fiscal year 2002-03.

Total current and noncurrent liabilities decreased overall in fiscal year 2002-03. The tuition benefits payable decrease reflects the changes in the actuarial present value of the future tuition obligation. Changes in the present value of the future tuition benefit obligation include the changes in the present value discount due to the passage of time, differences between actual experience and the actuarial assumptions utilized, and any changes in actuarial assumptions. Accounts payable decreased because of a security purchased prior to September 30, 2002 and settled in fiscal year 2002-03.

Condensed Financial Information
From the Statement of Revenues, Expenses, and Changes in Net Assets
Fiscal Year Ended September 30
(in thousands)

	2003	2002
Operating Revenues		
Interest and dividends income	$ 30,687	$ 37,624
Net realized and unrealized appreciation (depreciation) in the fair value of investments	(1,030)	9,354
Other miscellaneous income	48	46
Total operating revenue	$ 29,706	$ 47,024
Operating Expenses		
Salaries and other administrative Expenses	$ 1,267	$ 1,272
Tuition benefit expense (credit)	66,725	61,283
Total operating expenses (credit)	$ 67,991	$ 62,555
Operating income (loss)	$ (38,286)	$ (15,531)
Nonoperating Revenues (Expenses)	$ 0	$ 0
Transfers	$ 0	$ 0
Increase (decrease) in net assets	$ (38,286)	$ (15,531)
Net assets – Beginning of fiscal year	83,581	99,112
Net assets – End of fiscal year	$ 45,295	$ 83,581

Interest and dividends income decreased because of lower average yields in fiscal year 2002-03 as compared to fiscal year 2001-02.

Net realized and unrealized appreciation (depreciation) in the fair value of investments decreased because of a decrease in investment market values in fiscal year 2002-03.

Salaries and other administrative expenses decreased slightly because of an overall decrease in the cost of marketing, printing, and postage.

Tuition benefit expenses increased by approximately $5.4 million because of the change in the present value of the future tuition benefit obligation.

Condensed Financial Information
From the Statement of Cash Flows
Fiscal Year Ended September 30
(in thousands)

	2003	2002
Cash provided (used) by:		
Operating activities	$ (33,492)	$ (18,169)
Investing activities	67,721	(60,965)
Net increase (decrease) in cash	$ 34,229	$ (79,134)
Cash and cash equivalents - Beginning of fiscal year	32,237	111,371
Cash and cash equivalents - End of fiscal year	$ 66,466	$ 32,237

The **cash used by operating activities** increased primarily because of the increase in tuition contract payments to colleges and refund designees.

Overall, the **cash and cash equivalents at the end of the fiscal year** increased by approximately $34.2 million.

Factors Impacting Future Periods

It is expected that Michigan public universities will adopt higher tuition increases next year if State appropriated funds decrease.

Based on current experience of students using MET benefits to attend Michigan public colleges and universities, it is expected that MET Plans B and C will reach peak matriculation period from 2003 through 2006. During this time, approximately 20,000 students will be eligible to begin using MET contracts to attend college along with 12,000 students already using MET contracts. After 2006, the number of students expected to matriculate will dramatically decrease because new contracts have not been offered under MET Plans B and C since 1990.

MICHIGAN EDUCATION TRUST PLANS B AND C

Statement of Net Assets

As of September 30

	2003	2002
ASSETS		
Current Assets:		
Cash and cash equivalents (Note 3)	$ 66,465,795	$ 32,237,124
Amounts due from MET Program (Plan D)	574,475	595,869
Amounts due from primary government	1,145,721	968,586
Interest and dividends receivable	8,186,824	10,160,875
Total Current Assets	$ 76,372,814	$ 43,962,454
Noncurrent Assets:		
Investments (Note 3)	612,236,240	690,918,918
Total Assets	$ 688,609,054	$ 734,881,371
LIABILITIES		
Current Liabilities:		
Tuition benefits payable (Note 4)	$ 69,000,000	$ 64,000,000
Accounts payable - Vendors		9,935,562
Undistributed charitable tuition	4,784	4,784
Compensated absences	3,517	3,258
Total Current Liabilities	$ 69,008,301	$ 73,943,604
Noncurrent Liabilities:		
Tuition benefits payable (Note 4)	574,250,942	577,303,874
Compensated absences	54,396	52,692
Total Liabilities	$ 643,313,639	$ 651,300,170
NET ASSETS		
Net Assets - restricted	$ 45,295,415	$ 83,581,201
Total Net Assets	$ 45,295,415	$ 83,581,201

The accompanying notes are an integral part of the financial statements.

MICHIGAN EDUCATION TRUST PLANS B AND C

Statement of Revenues, Expenses, and Changes in Net Assets

Fiscal Year Ended September 30

	2003	2002
OPERATING REVENUES		
Interest and dividend income	$ 30,687,473	$ 37,623,819
Net realized and unrealized appreciation (depreciation) in the fair value of investments	(1,030,082)	9,354,480
Other miscellaneous income	48,257	45,512
Total Operating Revenues	$ 29,705,648	$ 47,023,810
OPERATING EXPENSES		
Salaries and other administrative expenses	$ 1,266,799	$ 1,272,311
Tuition benefit expenses	66,724,635	61,282,758
Total Operating Expenses	$ 67,991,434	$ 62,555,069
Operating Income (Loss)	$ (38,285,786)	$ (15,531,259)
Nonoperating Revenues (Expenses)	$ 0	$ 0
Transfers	$ 0	$ 0
Increase (Decrease) in Net Assets	$ (38,285,786)	$ (15,531,259)
Net assets - Beginning of fiscal year	83,581,201	99,112,460
Net assets - End of fiscal year	$ 45,295,415	$ 83,581,201

The accompanying notes are an integral part of the financial statements.

MICHIGAN EDUCATION TRUST - PLANS B AND C

Statement of Cash Flows

Fiscal Year Ended September 30

		2003		2002
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest and dividends received	$	32,661,183	$	38,509,627
Contract payments		(64,777,567)		(55,587,388)
Administrative and other expenses paid		(1,424,162)		(1,179,105)
Application and other fees collected		48,257		88,055
Net cash provided (used) by operating activities		(33,492,289)		(18,168,812)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investment securities		(290,948,213)		(303,325,810)
Proceeds from sale and maturities of investment securities		358,669,173		242,361,118
Net cash provided (used) by investing activities		67,720,960		(60,964,692)
Net cash provided (used) - All activities		34,228,671		(79,133,504)
Cash and cash equivalents - Beginning of fiscal year		32,237,124		111,370,628
Cash and cash equivalents - End of fiscal year	$	66,465,795	$	32,237,124
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	$	(38,285,786)	$	(15,531,259)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Unrealized and realized (gains) losses		1,030,082		(9,354,480)
Changes in assets and liabilities:				
Amounts due from primary government		(177,135)		(62,945)
Amounts due from others				42,543
Interest and dividends receivable		1,974,051		885,808
Amounts due from MET Program (Plan D)		21,394		145,682
Compenstated absences		(1,963)		10,467
Tuition benefits payable		1,947,068		5,695,371
Net cash provided (used) by operating activities	$	(33,492,289)	$	(18,168,812)

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 Basis of Presentation and Reporting Entity

a. Basis of Presentation

The financial statements of the Michigan Education Trust (MET) Plans B and C have been prepared in accordance with generally accepted accounting principles applicable to governments.

b. Reporting Entity

MET was created under Act 316, P.A. 1986 (Sections 390.1421-390.1444 of the *Michigan Compiled Laws*) to operate a prepaid college tuition program. MET is governed by a Board of Directors consisting of 9 members, including 8 public members who are appointed by the Governor with the advice and consent of the Senate and 1 ex-officio member (the State Treasurer, acting as chairperson). MET is administratively located within the Department of Treasury. The State Treasurer, as agent for MET, may not commingle funds and must maintain a separate bank account for MET. MET is a proprietary component unit of the State of Michigan (the "State") and is reported as such in the *State of Michigan Comprehensive Annual Financial Report*. The accompanying financial statements present only MET Plan B and C. Accordingly, they do not purport to, and do not, present fairly the financial position and changes in financial position and cash flows of the State of Michigan or its component units in conformity with generally accepted accounting principles applicable to governments.

Act 316, P.A. 1986, empowers MET, on behalf of itself and the State of Michigan, to enter into a contract with a purchaser which provides that, in return for a specified actuarial determined payment, MET will provide a Michigan child's undergraduate tuition at any Michigan public university or community college. The purchase amount is based on several factors, including tuition costs, anticipated investment earnings, anticipated tuition rate increases, and the type of contract purchased. MET offers a full benefits contract, a limited benefits contract, and a community college contract. MET's property, income, and operations have been statutorily exempted from all taxation by the State and its political subdivisions. The Act and the contracts specifically provide that the State is not liable if MET becomes actuarially unsound. In that event, the contracts provide for refunds to participants.

As of September 30, 2003, there have been 10 enrollment periods for MET. The 1988, 1989 and 1990 enrollments are known as Plans B and C. The 1995, 1997, 1998, 1999, 2000, 2002, and 2003 enrollments are known as Plan D. The Plan D enrollments are accounted for and reported separately from the Plans B and C enrollments. This report covers Plans B and C enrollments. A separate financial report and actuarial valuation of the Plan D enrollments are available from the MET office at P.O. Box 30198, Lansing, Michigan 48909.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 Summary of Signifcant Accounting Policies

a. Measurement Focus and Basis of Accounting

The financial statements contained in this report are prepared using the economic resources measurement focus and the accrual basis of accounting as provided by generally accepted accounting principles applicable to governments. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Tuition benefit expenses represents accretion of the tuition benefits obligation (see Note 4).

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, MET follows all GASB pronouncements and those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

b. Assets, Liabilities, and Net Assets

Cash and Cash Equivalents: Cash and cash equivalents reported on the statement of net assets include deposits with financial institutions and short-term investments with original maturities of less than three months used for cash management rather than investing activities.

Cash and Investments: MET's deposits and investments are held in a fiduciary capacity by the State Treasurer. Act 316, P.A. 1986, authorizes the MET Board of Directors to invest MET's assets in any instrument, obligation, security, or property that it considers to be appropriate. The Act also authorizes the pooling of MET's assets with assets of the State, such as the pension funds, for investment purposes.

Investments are carried at market value (see Note 3).

Act 316, P.A. 1986, requires all deposits of MET to be secured by obligations of the United States or of the State. The market value of these obligations must at all times be equal to or greater than the amount of the deposits of MET, and all banks and trust companies are authorized to give such security for such deposits.

Liabilities: The actuarial present value of the future tuition obligation is recorded as a current and noncurrent liability of MET (see Note 4).

Net Assets: MET's net assets represent the investment appreciation and the investment revenue in excess of the acturial present value of the future tuition obligation and expenses (see Note 4). Net assets are restricted because of the contractual obligations MET must adhere to on behalf of the purchasers and beneficiaries for which prepaid tuition was collected and invested. The enabling legislation for MET is Act 316, P.A. 1986. Section 17 of the Act indicates that "the assets of the trust shall be preserved, invested, and expended solely pursuant to and for the purposes set forth in this act and shall not be loaned or otherwise transferred or used by the state for any purpose other than the purposes of this act."

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 Deposits and Investments

a. General Information

GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, requires certain disclosures regarding policies and practices with respect to deposits and investments and the custodial credit risk associated with them.

Deposits: In accordance with GASB Statement No. 3, deposits are classified into three categories of credit risk, as follows:
Category 1: Insured or collateralized with securities held by the entity or by its agent in the entity's name.
Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
Category 3: Uncollateralized, including bank balances that are collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the entity's name.

Investments: In accordance with GASB Statement No. 3, investments are also classified into three categories of credit risk, as follows:
Category 1: Insured or registered, or securities held by the entity or its agent in the entity's name.
Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.
Category 3: Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the entity's name.

b. Deposits

At fiscal year-end, the carrying amount of MET's deposits for Plans B and C was $1,544,985. The deposits were reflected in the accounts of the banks at $1,544,985. The September 30, 2003 balances were covered by federal depository insurance or collateral held with MET's agent in MET's name and, accordingly, classified in GASB credit risk category 1.

c. Investments

The following table shows the carrying amounts and market values of investments for Plans B and C by investment type and in total (in millions) at September 30, 2003:

	GASB Credit Risk Category			Not	Total Carrying	Market
Investments	1	2	3	Categorized	Value	Value
Commercial paper	$ 64.9				$ 64.9	$ 64.9
Government securities	401.7				401.7	401.7
Corporate bonds and notes	210.6				210.6	210.6
Total Investments	$ 677.1	$ 0	$ 0	$ 0	677.1	$ 677.1

Less Investments Reported as Cash and Cash Equivalents on Statement of Net Assets	(64.9)
Total Investments Per Statement of Net Assets	$ 612.2

As Reported on the Statement of Net Assets	
Cash and cash equivalents (net of deposits, see Note 3b)	$ 64.9
Noncurrent investments	612.2
Total Investments	$ 677.1

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 Tuition Benefits Payable

The standardized measurement of the total benefits obligation of MET is the actuarial present value of the future tuition obligation. This valuation method reflects the present value of estimated tuition benefits that will be paid in future years and is adjusted for the effects of projected tuition increases and termination of MET contracts. The following table shows the total tuition benefits obligations of MET as of September 30:

	2003	2002
Market value of net assets, excluding tuition benefits obligation	$688,546,357	$724,885,075
Present value of future benefits payable and expenses, assuming MET earns 5.0% (5.27% for 2001-02)	$643,250,942	$641,303,874
Net assets in excess of tuition benefits obligation	$ 45,295,415	$ 83,581,201
Net assets as a percentage of tuition benefits obligation	107%	113%

The most important assumptions used in the actuarial valuations include the following:

(1) The discount rate applied to expected future cash flows to determine present value is 5.0%. This discount rate approximates the expected investment yield over the lifetime of the present tuition benefit contracts.

(2) The projected tuition increase is 7.0% compounded annually for the next five years and 7.30% for the balance of the period. The MET Board of Directors continued with a two-tier formula for adjusting the tuition increase assumption. The short-term increase assumption of 7.0% (five years through 2009) was based on an extrapolation of recent experience. The Board also considered the relationship of tuition increases to the consumer price index in determining the long-term tuition increase assumption of 7.30%.

(3) There was no tax effect from federal income tax.

(4) MET will pay 110% of the MET weighted average tuition in benefits and refunds.

Presented below are the key assumptions used in the actuarial valuations for Plans B and C:

	Fiscal Years				
	2002-03	2001-02	2000-01	1999-00	1998-99
Tuition increase	7.00%	5.84%	5.71%	5.81%	6.30%
Tuition increase-long-term	7.30%	7.30%	7.30%	7.30%	7.30%
Present value discount rate	5.00%	5.27%	6.20%	6.20%	6.20%

NOTES TO THE FINANCIAL STATEMENTS

The following summarizes the noncurrent tuition benefits payable as of and for the fiscal years ended September 30, 2003 and September 30, 2002:

Balance at October 1, 2001	$ 635,608,503
Expense provision	61,282,758
Payments	(55,587,388)
Balance at September 30, 2002	$ 641,303,874
Expense provision	66,724,635
Payments	(64,777,567)
Balance at September 30, 2003	$ 643,250,942

The amounts due within one year for tuition benefits for the fiscal years ended September 30, 2003 and September 30, 2002 are $69,000,000 and $64,000,000, respectively. Actuarial assumptions described above have a significant impact on the tuition benefits liability. Actual results may differ from the assumptions utilized.

NOTE 5 Tax Status

On November 8, 1994, the U.S. Court of Appeals for the Sixth Circuit ruled that MET is an integral part of the State of Michigan; thus, the investment income realized by MET is not currently subject to federal income tax.

Distributions made in excess of contributions (whether to the refund designee or beneficiary or to a college on behalf of the beneficiary) are taxable income to the refund designee or the beneficiary. After January 1, 2002, these excess distributions are no longer subject to federal income tax, if used for qualified higher education expenses. The federal tax exemption is scheduled to expire in 2010.

On August 20, 1996, the Small Business Job Protection Act of 1996 know as (the "1996 Tax Act") was signed into law, which included a provision adding a new section to the Internal Revenue Code of 1986 defining "qualified state tuition programs." A qualified state tuition program is generally exempt from income tax but is subject to unrelated business income tax. MET has no unrelated business income.

In May 1997, MET submitted a request for ruling to the Internal Revenue Service (IRS) for verification that MET is in compliance with the 1996 Tax Act. On December 23, 1997, the IRS issued a favorable ruling, which confirms that MET meets the requirements for exemption from federal income tax as a qualified state tuition program described in Section 529 of the Internal Revenue Code.

NOTE 6 Risk Management

MET participates in the State of Michigan's (primary government) risk management program. The State is self-insured for most general liability and property losses; portions of its employee insurance benefit and bonding programs; and automobile liability, workers' compensation, and unemployment claims. The State Sponsored Group Insurance Fund and Risk Management Fund (internal service funds) have been established by the State to account for these self-insured risk management programs. As a participant, MET recognizes expenses for payments made to the State in a manner similar to purchasing commercial insurance. Charges to finance the self-insured programs are based on estimates of amounts needed to pay prior and current year claims as determined annually by the Department of Management and Budget.

NOTE 7 Pension Plans

MET employees are state classified employees and are covered by the State Employees' Retirement System plans. Detail and data regarding the plan descriptions, accounting policies, vesting and eligibility requirements, actuarial cost methods and assumptions, funding status and requirements, and 10-year historical trend information are provided in the *SOMCAFR* and the plans' detailed financial reports, issued by the Office of Retirement Services.

MET Seeds planted…

Contract year: 1988
Beneficiary: Alexandra Kubinski

Under Graduate: Hope College (MET), graduated 2001

Post Graduate: Jane Addams School of Social Work, University of Illinois, graduated

Employment: Director of Communications to 1st Ward Alderman Manuel Flores, City of Chicago

On MET: *"The MET program allowed me to attend a private liberal arts school, where my rigorous academic training and close relationships with professors prepared me for graduate school and the job I now hold. I am required to balance many issues everyday that affect a large number of people and MET helped pave the way for training me to help others."*

Contract year: 1989

Beneficiary: Matthew Schneider

Under Graduate: Michigan State University (MET), graduated 1996

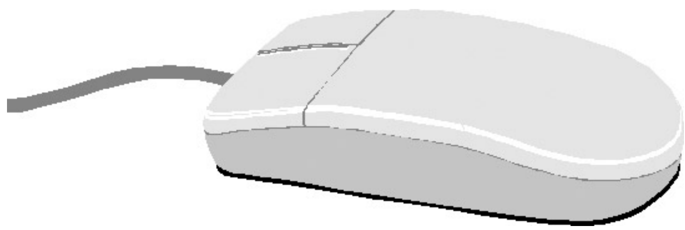
Post Graduate: University of Michigan Law School, graduated 2000

Employment: Assistant United States Attorney for the Eastern District of Michigan. Appointed by Attorney General John Ashcroft.

On MET: *"I am thankful for the MET program. Through it, my family was able to provide for my education at Michigan State University's James Madison College. Knowing my educational foundation was more secure allowed me to focus on academic achievement and the pursuit of my career goals. Today, I find fulfillment in prosecuting drug and gun crimes as a Federal Prosecutor at the United States Department of Justice."*

NEW!

MET contract Beneficiaries, Purchasers, and Appointees can now access contract information online. Each person listed on the contract must request his or her own password.



Go to www.met4kid.com and select the click here option under *New! Now you can view your MET contract information online.* By providing the requested information, you are applying for a temporary password that will be mailed to you by MET. Upon receiving this temporary password you will have 60 days to select your own confidential, permanent password.

Online access will allow you to review key contract information.

Michigan Department of Treasury
2775 (Rev. 6-04)

Contract Number(s)

Michigan Education Trust Change of Address

It is important that we have correct addresses and phone numbers. Please notify us when a **permanent address** change is made. This will enable us to mail the appropriate individual important program information such as tax information used for income tax purposes. The MET contract is a legal document therefore, any changes to the contract must be made in writing to the MET office and mailed to the address listed below. Either the Purchaser, Beneficiary or Appointee must sign this form. *The Beneficiary must be 18 years of age and can only change his/her address. If change of address applies to more than one beneficiary (Student), please copy this form and submit a separate form for each beneficiary (Student).

This change of address applies to (check all that apply):

_____Purchaser _____*Beneficiary (Student) _____Appointee

Name	E-mail Address
New Address	Daytime Telephone ( )
City, State, ZIP Code	

Signature (Purchaser)	Date
Signature (*Beneficiary)	Date
Signature (Appointee)	Date

MAIL TO:
Michigan Education Trust
P.O. Box 30198
Lansing, Michigan 48909

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